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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

September 30, 2013

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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

September 30, 2013

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APPOINTIVE OFFICIALS

Angela Wong, Lottery Director

John Tarr, Lottery Assistant Director for Security

LOTTERY COMMISSION		TERM EXPIRES
Tom Keegan	Helena	January 1, 2014
Wilbur Rehmann	Helena	January 1, 2017
Leo Prigge	Butte	January 1, 2015
Cindy Hiner	Deer Lodge	January 1, 2017
Frank DiFonzo	Sidney	January 1, 2017

REPORT DISTRIBUTION

According to Section 23-7-202(9), MCA, copies of this report must be distributed to the following:

Governor – Steve Bullock
Director of Dept. of Administration – Sheila Hogan
Legislative Auditor – Tori Hunthausen
President of the Senate – Jeff Essmann
Speaker of the House – Mark Blasdel

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature". The President of the Senate and the Speaker of the House have requested that this report be distributed to the following committees:

HOUSE – State Administration Committee

Pat Ingraham, Chair
Ted Washburn, Vice Chair (R)
Bryce Bennett, Vice Chair (D)
Liz Bangerter
Joanne Blyton
Clarena Brockie
Frosty Calf Boss Ribs
Pat Connell
Bill Harris
Greg Hertz
David Howard
Doug Kary
Jesse O'Hara
Jean Price
Casey Schreiner
Ray Shaw
Kathy Swanson
Gordon Vance
Franke Wilmer

HOUSE – Business & Labor Committee

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Dan Salomon, Vice Chair (R)
Carlie Boland, Vice Chair (D)
Christy Clark
Amanda Curtis
Steve Fitzpatrick
Edward Greef
Roger Hagan
Chuck Hunter
Mike Lang
Jonathan McNiven
David Moore
Reilly Neill
Rae Peppers
Gordon Pierson
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Cary Smith
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Jeffrey Welborn

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Dee Brown, Vice Chair (R)
Anders Blewett
Larry Jent
Scott Sales
Kendall Van Dyk
Roger Webb

SENATE – Business, Labor, & Economic Affairs Committee

Jon Sonju, Chair
Verdell Jackson, Vice Chair (R)
Elsie Arntzen
Debby Barrett
Dee Brown
Tom Facey
Eric Moore
Sharon Stewart-Peregoy
Kendall Van Dyk
Gene Vuckovich

Montana LOTTERY
For the fun of it! 2525 N. Montana, Helena, MT 59601 • P: 406-444-5825 • F: 406-444-5830

December 2013

Montana Lottery Commission:

The past quarter has been an active one. We have had a busy fall with our football events, another installment of the Montana Millionaire game, along with the upcoming changes to Powerball.

We are off to a good start for the year in game sales. Powerball, Montana Cash, and Hot Lotto sales each experienced an increase over last year's first quarter. Powerball sales were 11.1% higher, Montana Cash increased by 10.4%, and Hot Lotto sales were up by 18.6%.

The rest of the games have seen a decrease compared to last year at this time. Scratch sales were 4.8% lower, Wild Card sales were 2.7% lower, Mega Millions decreased by 13.1%, 10 Spot sales dropped by 2.1%, and EZ Play games were 6.4% lower.

Overall, there was a good increase in operating revenue of 2.4% along with a decrease in direct game costs of 1.2%. Combined with a 3.7% increase in operating expenses, the transfer for the first quarter was $3,067,962, which is $382,716 more than last year at this time. The percentage of transfer to revenue was 23.4% this quarter compared to 21.0% last year's first quarter.

The Lottery plans to introduce 40+ new scratch games during the fiscal year 2014. We plan to continue building scratch sales through innovative game themes and offering games with built-in name recognition (licensed property games).

We are looking forward to a busy winter with another season of Fantasy Football and Montana Millionaire, along with the introduction of new EZ play games.

Sincerely,

Angela Wong

Angela Wong
Director

MONTANA LOTTERY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Period Ended September 30, 2013	Period Ended September 30, 2012
ASSETS:		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 6,421,600	$ 2,608,631
Receivables (Net)	1,805,874	2,000,748
Inventories	387,827	363,626
TOTAL CURRENT ASSETS	8,615,301	4,973,005
NONCURRENT ASSETS		
Computer, Furniture & Equipment	2,981,106	2,916,106
Leasehold Improvements	45,448	45,448
Equipment - Work in Process	0	65,000
Accumulated Depreciation	(1,699,948)	(1,185,594)
Multi-State Reserve fund	1,678,956	2,068,760
TOTAL NONCURRENT ASSETS	3,005,562	3,909,720
TOTAL ASSETS	$ 11,620,863	$ 8,882,725
LIABILITIES:		
CURRENT LIABILITIES		
Accounts Payable	$ 530,439	$ 356,582
Estimated Prize Liability	4,529,750	2,015,688
Transfer Obligations	3,067,962	2,685,246
Deferred Revenue	224,229	185,960
Accrued Compensated Absences	144,176	90,966
Current Portion Long-Term Obligations	72,168	72,168
TOTAL CURRENT LIABILITIES	8,568,724	5,406,610
NONCURRENT LIABILITIES		
Multi-State Prize Liability	1,471,818	1,548,708
Accrued Compensated Absences	18,557	90,678
Long Term Obligations	108,252	180,419
Other Post Employment Benefits	589,890	488,054
TOTAL NONCURRENT LIABILITIES	2,188,517	2,307,859
TOTAL LIABILITIES	10,757,241	7,714,469
NET POSITION		
Net Invesment in Capital Assets	1,146,186	1,588,373
Unrestricted	(282,564)	(420,117)
TOTAL NET POSITION	$ 863,622	$ 1,168,256

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE QUARTERS ENDED SEPTEMBER 30, 2013 AND 2012
(Unaudited)

	Quarter Ended September 30, 2013	Quarter Ended September 30, 2012
OPERATING REVENUES:		
Scratch ticket revenue	$ 3,992,043	$ 4,194,950
Powerball revenue	5,078,187	4,569,002
Montana Cash revenue	850,438	770,632
Wild Card revenue	491,391	505,098
Hot Lotto revenue	808,081	681,429
Mt. Sports Action revenue	741	863
Mega Millions revenue	860,685	990,167
10 Spot revenue	166,565	170,105
EZ Play revenue	858,630	917,705
License, permits, and misc	6,643	7,435
Total Operating Revenues	13,113,404	12,807,386
Less Direct Game Costs:		
Scratch ticket prize expense	2,480,334	2,753,661
On-line ticket prize expense	4,885,425	4,583,730
Retailer commission	739,233	775,688
Cost of tickets sold	203,233	323,158
Vendor fees	777,951	761,502
Total Direct Game Costs	9,086,176	9,197,739
Income Before Operating Expenses	4,027,228	3,609,647
OPERATING EXPENSES:		
Advertising	70,834	112,311
Advertising Production	65,416	35,415
Audit Fees	5,204	1,018
Bad Debts Expense	(4,760)	0
Communications	33,610	34,654
Contractual Services	15,124	17,086
Depreciation and Amortization	128,872	128,162
Interest	2,766	3,804
Administrative Service Fee	16,238	15,808
Multi-State Dues	44,308	0
Public Relations	26,897	57,194
Other	5,512	6,150
Personal Services	439,226	438,623
Repairs and Maintenance	2,831	12,805
Supplies and Materials	127,160	78,490
Travel	18,013	20,326
Utilities and Rent	41,291	39,987
Total Operating Expense	1,038,542	1,001,833
Operating Income	2,988,686	2,607,814
NONOPERATING REVENUES (EXPENSES)		
Interest earnings	2,088	3,332
Total Nonoperating Revenues(Expenses)	2,088	3,332
Income Before Operating Transfers	2,990,774	2,611,146
Operating Transfers In - General Fund	(3,067,962)	(2,685,246)
Total Operating Transfers Out - General Fund	(3,067,962)	(2,685,246)
CHANGE IN NET POSITION	(77,188)	(74,100)
Total Net Position, Beginning of Period	940,810	1,242,356
TOTAL NET POSITION, END OF PERIOD	$ 863,622	$ 1,168,256

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
AND RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS
FOR THE QUARTER ENDED SEPTEMBER 30, 2013
(Unaudited)

	Budget Fiscal Year July 1, 2013 - June 30, 2014	Actual Three Months Ended September 30, 2013 (Unaudited)	Actual as a Percent of Final Budget (%)
REVENUES:			
Scratch ticket revenue	$ $18,500,000	$ 3,992,043	21.58
Powerball revenue	21,000,000	5,078,187	24.18
Montana Cash revenue	3,500,000	850,438	24.30
Wild Card revenue	2,500,000	491,391	19.66
Hot Lotto revenue	3,000,000	808,081	26.94
MT Millionaire	2,600,000	0	0.00
MT Sports Action (Admin Fees)	5,500	741	13.47
10 Spot	650,000	166,565	25.63
Mega Millions	4,000,000	860,685	21.52
EZ Play revenue	4,500,000	858,630	19.08
License, permits, and miscellaneous	15,000	6,643	44.29
Total Revenues	60,270,500	13,113,404	21.76
DIRECT GAME COSTS:			
Prizes - Scratch ticket	11,605,050	2,480,334	21.37
Prizes - Lotto games	21,532,500	4,885,425	22.69
Prizes - MT Millionaire	1,510,000	0	0.00
Retailer commissions	3,427,500	739,233	21.57
Ticket cost - scratch games	905,000	203,233	22.46
Ticket cost - vendor fees	3,494,500	777,951	22.26
Total Direct Game Costs	42,474,550	9,086,176	21.39
OPERATING EXPENSES:			
Advertising	507,949	70,834	13.95
Advertising Production	238,551	65,416	27.42
Audit Fees	110,145	5,204	4.72
Communications	140,052	33,610	24.00
Contractual Services	83,396	15,124	18.14
Interest	9,510	2,766	29.09
Administrative Service Fee	63,000	16,238	25.77
Multi-State Dues	50,000	44,308	88.62
Public Relations	60,000	26,897	44.83
Other	29,809	5,512	18.49
Personal Services	1,826,337	439,226	24.05
Repairs and Maintenance	27,850	2,831	10.17
Supplies and Materials	190,672	127,160	66.69
Travel	51,625	18,013	34.89
Utilities and Rent	694,720	41,291	5.94
Equipment	28,000	0	0.00
Total Operating Expenses	4,111,616	914,430	22.24
Operating Income	13,684,334	3,112,798	22.75
NONOPERATING REVENUES (EXPENSES):			
Interest Earnings	10,000	1,405	14.05
NET INCOME (BUDGETARY BASIS)	$ 13,694,334	$ 3,114,203	22.74
RECONCILIATION OF BUDGETARY/GAAP BASIS:			
Capitalized equipment purchases	28,000	0	0.00
Adjustment for depreciation expense	(512,648)	(128,872)	25.14
Bad Debts	0	4,760	0.00
MUSL interest earnings	2,000	683	34.15
Total Reconciling Items	(482,648)	(123,429)	
NET INCOME (GAAP BASIS)	$ 13,211,686	$ 2,990,774	22.64

The accompanying notes are an integral part of these financial statements.

MONTANA LOTTERY

ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT

FOR THE QUARTER ENDED SEPTEMBER 30, 2013

(Unaudited)

	SCRATCH	POWERBALL	MONTANA CASH	WILD CARD	HOT LOTTO	MT. MILLIONAIRE	MEGA MILLIONS	10 SPOT	EZ PLAY	MT SPORTS ACTION	ADMIN
REVENUES:	$ 3,992,043	$ 5,078,187	$ 850,438	$ 491,391	$ 808,081	$ 0	$ 860,685	$ 166,565	$ 858,630	$ 741	$ 6,643
DIRECT GAME COSTS:											
Prize Expense	2,480,334	2,488,571	448,926	270,361	394,174	0	426,671	92,721	757,401	0	6,600
Retailer Commissions	283,496	253,926	42,525	24,574	40,408	0	43,039	8,333	42,932	0	0
Cost of Tickets Sold	203,233	0	0	0	0	0	0	0	0	0	0
Vendor Fees	230,318	303,025	52,540	31,472	50,009	0	51,429	9,694	49,464	0	0
NET OPERATING REVENUE	794,662	2,032,665	306,447	164,984	323,490	0	339,546	55,817	8,833	741	43
OPERATING EXPENSES:											
Advertising	21,254	15,603	2,290	2,320	2,290	0	10,988	2,290	13,051	0	750
Advertising Production	13,120	10,620	10,291	6,541	4,041	0	12,717	3,637	2,428	2,021	0
Audit Fees	0	0	0	0	0	0	0	0	0	0	5,204
Bad Debts	0	0	0	0	0	0	0	0	0	0	(4,760)
Communications	13,875	0	0	0	0	0	0	0	0	0	19,735
Contractual Services	1,835	0	0	0	0	0	0	0	0	0	13,289
Depreciation and Amortization	24,486	11,598	11,598	9,021	9,021	11,598	3,866	3,866	3,866	15,465	24,487
Interest	0	0	0	0	0	0	0	0	0	0	2,766
Administrative Service Fee	4,060	1,624	1,461	1,137	1,137	974	487	487	487	974	3,410
Multi-State Dues	0	30,918	0	3,150	4,821	0	5,419	0	0	0	0
Public Relations	7,065	1,010	1,010	1,010	1,010	0	1,010	1,010	1,010	0	12,762
Other	0	0	0	0	0	0	0	0	0	0	5,512
Personal Services	109,807	43,923	39,530	30,746	30,746	26,354	13,177	13,177	13,177	26,354	92,237
Repairs and Maintenance	0	0	0	0	0	0	0	0	0	0	2,831
Supplies and Materials	129	0	0	0	0	0	0	0	0	0	127,031
Travel	3,961	991	990	990	990	0	0	0	0	0	10,091
Utilities and Rent	201	50	50	50	50	0	50	50	50	0	40,738
TOTAL OPERATING EXPENSES	199,793	116,337	67,220	54,965	54,106	38,926	47,714	24,517	34,069	44,814	356,083
OPERATING INCOME	594,869	1,916,328	239,227	110,019	269,384	(38,926)	291,832	31,300	(25,236)	(44,073)	(356,040)
NONOPERATING REVENUES (EXPENSES)											
Interest Earnings	0	0	0	0	0	0	0	0	0	0	2,088
OPEB Expenses	0	0	0	0	0	0	0	0	0	0	0
TOTAL NONOPERATING REVENUES (EXPENSES)	0	0	0	0	0	0	0	0	0	0	2,088
NET INCOME BY PRODUCT	$ 594,869	$ 1,916,328	$ 239,227	$ 110,019	$ 269,384	$ (38,926)	$ 291,832	$ 31,300	$ (25,236)	$ (44,073)	$ (353,952)
PROFIT AS A % OF REVENUE	14.90%	37.74%	28.13%	22.39%	33.34%	0.00%	33.91%	18.79%	-2.94%	N/A	N/A

NOTE: THIS IS 'THREE MONTHS' ACTIVITY AND THEREFORE SHOULD NOT BE INTERPRETED TO SHOW HOW OUR PRODUCTS HAVE PERFORMED IN PAST YEARS OR WILL PERFORM IN THE FUTURE.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is attached to the Montana Department of Administration for administrative purposes.

The Montana Lottery is included as an enterprise fund in the State of Montana's Comprehensive Annual Financial Report. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Montana Lottery's financial statements as a reporting entity.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Property and equipment. Property and equipment are recorded at cost. Donated property and equipment are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of property and equipment, the cost and related accumulated depreciation or amortization are removed from the accounts. Gain or loss on disposal is reflected in non-operating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of three to ten years. The Lottery conforms to the State of Montana capitalization threshold for capitalizing property and equipment as well as buildings and building/land improvements. The threshold for capitalizing property and equipment is $5,000 and the threshold for capitalizing buildings/land improvements is $25,000.

Revenue Recognition. Lottery scratch ticket sales are recorded as revenue based on the time the retailer activates the pack of tickets for sale. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Ticket sales for lotto games Powerball, Wild Card, Montana Cash, Hot Lotto, Montana Millionaire, Mega Millions, and 10 Spot are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Ticket sales for Fantasy Sports games are based upon MCA 23-4-302 and an interagency agreement between the Lottery and the Board of Horse Racing. The Lottery is only a facilitator of these games and charges an administrative fee for this service. The actual sales of these games are not reflected on the Lottery's financial statements as they are not income to the Lottery.

Classification of Revenues. The Lottery has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have characteristics of exchange transactions, including (1) ticket sales, net of returns, and (2) retailer license fees and administrative fees in relation to selling lottery tickets.

Non-Operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and other revenue sources that are defined as non-operating revenues by GASB No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting," and GASB No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." Types of revenue sources that fall into this classification are investment income, and gain or loss on disposition of assets.

New Accounting Guidance Implemented. For the year ended June 30, 2013, the Montana Lottery implemented the provisions of GASB Statement No. 63 – "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." The objective of this statement is to standardize the presentation of deferred outflows of resources, deferred inflows of resources, and their effects on a government's net position. For the Lottery, this entailed changing the titles of the financial statements. Also changed were the presentation of the net position section, and the overall accounting formula of the Statement of Net Position. GASB 63 changes the terminology of the different types of net position, which the Lottery has adopted, without any change to the financial information from Fiscal Year 2013.

Free Tickets. Some Montana Lottery scratch games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free ticket prizes distributed for the quarter ended September 30, 2013 was $73,036.

Promotional Credits. The Lottery issues promotional credits to retailers to be used to distribute free tickets to players. The tickets are distributed as part of a promotion run by the retailer, e.g., "Ask for the Sale" or second chance drawings. The Lottery also directly distributes scratch tickets for promotional purposes at trade shows, for media give-aways, and during new game introductions. The tickets distributed as a result of promotional credits are reflected as a reduction in revenue. The related prize expense and ticket cost for all promotions are reclassified as an advertising expense. For the quarter ended September 30, 2013, promotional credits resulted in a revenue reduction of approximately $3,787 and an expense reclassification of approximately $3,640.

Prizes. Expenses for scratch prizes are recorded based on the predetermined prize structure for each game. Expenses for lotto prizes are recorded based on the predetermined prize structure for each individual game. No prize expense is recorded for free tickets distributed.

Unclaimed Prizes. Prizes for the lotto games must be claimed within six months after the appropriate draw date. Prizes for scratch games must be claimed within six months of the announced end of each game. The unclaimed prize amounts for the Montana Lottery lotto games are taken as a reduction in the Lottery Prizes Payable liability and the Prize Expense and are transferred to the State of Montana General Fund as a portion of the quarterly transfer. The amount of unclaimed prizes for all Montana Lottery games is represented in the table below.

	Quarter Ended 9/30/13	Quarter Ended 9/30/12	Year To Date 9/30/13	Year To Date 9/30/12
Lotto	$ 84,727	$110,887	$ 84,727	$110,887
Scratch	$106,768	$ 0	$106,768	$ 0
TOTALS	$191,495	$110,887	$191,495	$110,887

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit in revolving account with a non-state financial institution and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Cash and cash equivalents consist of the following:

	September 30,	
	2013	2012
Short-term investment pool	$2,712,845	$2,205,563
Cash on deposit with State Treasurer	3,698,755	393,068
Cash in revolving deposit account	10,000	10,000
TOTALS	$6,421,600	$2,608,631

The bank balance of the revolving deposit account, not including outstanding deposits or checks, was $16,355 at September 30, 2013 and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

Receivables. Receivables include $2,075,180, representing amounts due the Lottery for tickets purchased by retailers. An allowance for ticket returns is included in the receivables amount. This allowance represents a reduction in receivables at September 30, 2013, for estimated ticket returns. This is an estimate based on returns received to date, as well as an estimate of tickets unsold by retailers for games that have a public sale end date prior to October 1, 2013. The allowance for ticket returns is $285,888 at September 30, 2013. The return of vendor fees related to the allowance for returns is $16,582.

Inventories. Inventories consist of merchandise and supplies inventories. Merchandise inventory includes scratch tickets valued at $292,046 stored in the warehouse, at retailers prior to being activated by the retailer, and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold upon activation or after game end.

Supplies inventories include ticket dispensers, premiums and point-of-sale materials. At year end, supplies inventories totaled $95,781. These inventories are also recorded at cost using the specific identification method.

Property and Equipment. A summary of property and equipment for the Lottery is as follows:

	June 30, 2013	Additions	Deletions	March 31, 2013
Leasehold Improvements	$ 45,448	$ -	$ -	$ 45,448
Furniture & Equipment	$ 2,981,106	$ -	$ -	$ 2,981,106
Accumulated Depreciation	$(1,571,075)	$(128,873)	$ -	$(1,699,948)

Transfer Obligations. The account "Transfer Obligations" is $3,067,962 payable to the General Fund at September 30, 2013.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's liability for compensated absences is detailed below.

Balance June 30, 2013	Net Leave Earned/(Used)	Balance September 30, 2013
$189,451	$(26,718)	$162,733

Commissions. Section 23-7-301(10), MCA, provides retailers a commission on scratch and lotto tickets or chances sold. The Lottery Commission established this commission at 5% of the face value of scratch tickets activated by the retailers and the face value of lotto tickets sold. Section 23-4-302 (5)(b)(i), MCA establishes a 3.99% commission of the face value of Fantasy Sports tickets sold. In addition retailers can earn bonus commissions on tickets sold based on incremental sales of scratch tickets. For the quarter ended September 30, 2013 retailers earned bonus commissions of $78,032. For the quarter ended September 30, 2013 total commissions were $739,233.

OPEB (Other Post Employment Benefits) Implicit Rate Subsidy LT. Effective for Fiscal Year End 08, GASB Statement 45 and the reporting requirements for the "implied rate subsidy" required the State of Montana to book substantial liabilities. The liability is a result of the state's requirement to allow retired employees to remain in the retirement plan after retirement. This results in an implicit rate subsidy since retirees pay the same amount as active employees. "Actuaries Northwest" prepared the report for the State of Montana to calculate the Annual Required Contribution under the Governmental Accounting Standards Board (GASB). The allocation is made based on the fiscal year's benefits expense and the number of full time employees for an agency.

The Lottery's OPEB obligations for 2013 and 2012 are as follows:

Year ended June 30,	2013	2012
Annual Required Contribution	$ 101,836	$ 92,717
Adjustment to annual required contributions	-	-
Annual OPEB cost	$,101,836	$ 92,717
Contributions made	-	-
Increase to net OPEB obligation	$ 101,836	$ 92,717
Net OPEB obligation – beginning of year	$ 488,054	$ 395,337
Net OPEB obligation – end of year	$ 589,890	$ 488,054

3. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services, supplies, and materials from other state agencies. These services and materials are detailed below for the fiscal quarter ended September, 2013:

Insurance	$ 3,196
Warrant Writing Services	119
Payroll Services	1,851
Audit Fees	5,204
Computer Fees	16,235
State Accounting System Support	821
Mail Processing Fees	4,039
Telecommunications	3,572
Other	128
Administrative Service Fees	16,238
TOTAL	$ 51,403

4. PRIZES

Paid Prizes. Section 23-7-402, MCA states, "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". Prize expense is recorded based on the predetermined prize structure percentage for each game less unclaimed prizes. For the quarter ended September 30, 2013, the prize expense of $7,365,759 is 56.2% of net Lottery ticket revenue of $13,106,761.

5. TRANSFER TO STATE GENERAL FUND

Section 23-7-402(3), MCA, states "That part of all gross revenue not used for payment of prizes, commissions, and operating expenses, together with the interest earned on the gross revenue while the gross revenue is in the enterprise fund, is net revenue. Net revenue must be transferred quarterly from the enterprise fund established by 23-7-401 to the State General Fund." For the quarter ended September 30, 2013, the net revenue payable to the State General Fund totaled $3,067,962.

6. MULTI-STATE LOTTERY

In November 1989 the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. Powerball, Wild Card, Hot Lotto, and Mega Millions are the games jointly operated by the members, in which Montana presently participates. Each lottery participating in MUSL is represented on the Board of Directors.

The Multi-State Lottery Reserve Fund with a balance of $1,678,956 and $2,068,760 as of September 30, 2013 and 2012, respectively, is comprised of several reserve accounts, which are maintained by the Multi-State Lottery Association (MUSL). The balance of these reserve accounts is as follows:

	September 30, 2013	September 30, 2012
Powerball Prize Reserve Account	$ 521,972	$ 645,929
Powerball Set Prize Reserve Account	234,139	207,229
Powerball Unreserved Account	207,139	520,052
Wild Card Prize Reserved Account	195,108	206,791
Hot Lotto Set Prize Reserve Account	337,005	354,840
Mega Millions Prize Reserve Account	183,593	133,919
Total	$1,678,956	$2,068,760

The Powerball Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Powerball game, assuming that no unanticipated prize claims have been paid. Interest earned on the Lottery's share of the fund, represented by the Unreserved Account, would be returned to the Lottery upon leaving MUSL. The amounts in the Unreserved Account may be used at the MUSL Board's discretion.

The Powerball Set Prize Reserve Account is used to fund prize payments for current drawings. Since the Powerball game has fixed prizes, it is often necessary to draw from this reserve to fund payment of prizes at the fixed amount. This account would be returned to the Lottery upon withdrawal from the Powerball Game.

The Lottery contributes to these reserve funds through the 50% set aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve funds accumulated since the start of the Powerball game. Payments made to this fund are considered a portion of prize expense associated with the game.

The Powerball Unreserved Account is a separate account used by a participating Lottery to have MUSL hold funds due to the Lottery. Balances in this account are created when any MUSL jackpot expires and goes unclaimed. Each Lottery is then refunded its pro rata share of the jackpot based on sales during the accumulation of that specific jackpot. This money is then invested in U.S. Treasury securities until withdrawn. Interest earned on the Lottery's share of the fund is added to the Unreserved Account on a quarterly basis. The amount in the Unreserved Account

has limited uses and are set and approved by the Board with the stipulation that requests to use the funds are accompanied by certification from the requesting Board Member that the payment is made in conformance with state or jurisdiction law and is related to a MUSL activity.

The Wild Card Reserve Account is to be used in the event of an unanticipated prize claim on the Wild Card game. This account is also administered by MUSL and would be returned to the Lottery one year after the Wild Card Product Group of Idaho, Montana, South Dakota, and North Dakota is disbanded. The Lottery contributes to this account through the 57% set aside for prizes. Payments made to this fund are considered a portion of prize expense related to the Wild Card game.

The Hot Lotto Set Prize Reserve Account is administered by MUSL and is to be used only in the event of unanticipated prize claims. Like other MUSL games the reserve amount would be returned to the Lottery one year after withdrawal from the Hot Lotto game. The Lottery contributes to the reserve through the 50% set aside for prizes. Payments made to the reserve are considered a portion of the prize expense related to the game.

The Mega Millions Prize Reserve Account is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund would be returned to the Lottery one year after the Lottery leaves the Mega Millions game, assuming that no unanticipated prize claims have been paid. The Lottery contributes to the reserve through the 51% set aside for prizes for Mega Millions plays and 50% for Megaplier plays. Payments made to the reserve are considered a portion of the prize expense related to the game. The Lottery had just started cross-selling Mega Millions during the fiscal year end 2010.

7. GAMES

Currently, the Montana Lottery games are scratch ticket games, seven lotto games referred to as Powerball, Montana Ca$h, Wild Card, Hot Lotto, Mega Millions, 10 Spot, and Montana Millionaire, a limited edition lottery game. The lottery is facilitating Fantasy Sports Games on behalf of the Board of Horse Racing. Currently the Lottery is selling the Montana Sports Action Fantasy Football and the Racing games.

Scratch ticket games provide players the opportunity to win instantly by scratching latex covering to reveal a prize.

The Powerball game allows players the chance to win a minimum pari-mutuel jackpot of approximately $40 million. A player must match all 6 numbers to win the jackpot. Players win prizes ranging from $4 to $1,000,000 for matching fewer than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot. In March 2001, the Lottery added Power Play to the Powerball game. For an additional $1 per play, the Power Play doubles the Match 5 prize from $1 million to $2 million and increases other prizes as well.

The Montana Ca$h game allows players the chance to win a minimum pari-mutuel jackpot of $20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins $5 and 4 of 5 wins $200. The drawing is conducted twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Wild Card game allows players the chance to win a pari-mutuel jackpot, with a guaranteed minimum of $200,000. Players select 5 numbers from a field of 33 plus one of 16 face cards and must match all 5 numbers and the wild card to win the jackpot; players win prizes from $1 to $6,000 for matching less than all 5 numbers and/or the wild card. Drawings are held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers and the wild card, the jackpot rolls over to the next drawing to create a progressive jackpot.

Hot Lotto allows players in the 16 participating lotteries a chance to win an all-cash pari-mutuel jackpot with a guaranteed minimum of $1 million, plus tax withholdings paid. This change was implemented May 2013. Each time the jackpot is not won, it grows, thus creating a progressive jackpot. Players choose five numbers from 1 to 47, and one Hot Ball number from 1 to 19. To win the pari-mutuel jackpot, a player must match all six numbers. If a player chooses, for an additional bet amount, to add Sizzler to their ticket, any prize except the jackpot is multiplied by three. Drawings are held twice weekly on Wednesday and Saturday nights.

Mega Millions is a multi-state game that allows players to win a minimum pari-mutuel jackpot starting at $12 million. Mega Millions went on sale March 1, 2010 in Montana. To win the jackpot, players must match all six numbers drawn; other prizes range from $2 to $250,000. Drawings are held each Tuesday and Friday. Mega Millions has a Megaplier option which multiplies non-jackpot prizes by two, three, or four. The Megaplier options costs $1 extra per play.

10 Spot, which went on sale February 1, 2010, is a Montana-only, twice daily game. Players select ten numbers from one through eighty. The Lottery draws twenty numbers, and players win by matching ten, nine, eight, seven, six, five, or none of the numbers drawn. Prizes range from $2 to $25,000.

Montana Sports Action is a product line introduced by the Lottery in August 2008 on behalf of the Board of Horse Racing. Montana Sports Action Fantasy Football was the first game within the Fantasy Sports Games to begin. Players choose five eligible offensive players and a defensive unit from the official roster of professional football players and teams, to create their own team. The players then choose a play amount ($5, $10, $20, $50, or $100) which determines the shares the player is eligible to win should their team have one of the three highest point totals for the week.

After completion of each week's professional football games, points are assigned to football players and defensive units based on their performance to determine the Lottery players' team's performance. Prizes paid must be 74% of sales for the week. How much the player wins is determined by their team's points and their share ($5 per share). Ticket sales are allowed each week of the professional football season beginning Tuesday morning for that week's games with no advanced purchasing allowed.

Fantasy Racing was introduced in February 2009, and follows the NASCAR® Sprint Cup Series. Fantasy Racing teams are created by selecting a driver from the top nine-ranked drivers for the week; three drivers ranked from ten through 34; and one driver ranked 35 or above. The sixth element in a player's Fantasy Racing team is the number of yellow-flag cautions the player believes might occur in that week's race. Players also choose the number of shares they wish to buy ($5, $10, $20, $50 or $100). Like Fantasy Football, the number of shares determines the amount of the prize each winning ticket will win. After each Sprint Cup race, points are assigned to each driver's performance, and teams with the top three point totals win. Ticket sales begin each week on Monday.

Montana Millionaire is a seasonal raffle-type game offering a $1 million top prize. The first offering went on sale October 1, 2007. The lottery has sold the game every winter since. Tickets are sold sequentially, and the 2012 game offered 130,000 tickets, which sell for $20 each. Early bird drawings for $10,000 were offered on Thanksgiving weekend and the second week of December to stimulate early sales. There were also 200 $50 instant winners and 500 $500 instant winners. Available tickets for the game sold out prior to the expected end of the game, selling out on December 29, 2012. On January 1, 2013, one $1 million prize was awarded, along with two $100,000 prizes and three $10,000 prizes. Montana Millionaire is scheduled to sell from November 1 through December 3, 2013, with a drawing on New Year's Day 2014.

8. COMMITMENTS - GAMING SUPPLIER CONTRACTS

Scratch Tickets. On June 27, 2008 the Montana Lottery Commission approved the award of a five-year contract with Scientific Games International (SGI) for the provision of scratch tickets. The contract is for five years with the option for two additional one-year renewals. The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure.

SGI, as the vendor, provided a performance bond covering the contract term and an errors and omissions policy covering an ultimate net loss of $3,000,000. The Lottery may terminate this contract by providing proper notification to Scientific Games.

On-line Services. On October 11, 2005, the Lottery signed a seven-year contract with Intralot, Inc. of Duluth, GA to provide an on-line gaming system and the associated services beginning March 31, 2006. The contract requires Intralot to provide new terminals to all retailers with the associated software and communications. Payment under the contract is based on 5.8% of net weekly Lottery sales of lotto and scratch games. On August 18, 2008 an addendum was signed to provide services for the Fantasy Sports games at 3% of net weekly Lottery sales up to $2,999,999 of Montana Sports Action games. The contract currently has a termination date of March 30, 2016.

9. LOTTO*AMERICA/POWERBALL/TRI-WEST JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL and TRI-WEST LOTTO games are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the Anniversary date of the win.

On January 13, 1990 the Montana Lottery awarded its first Lotto*America jackpot prize totaling $1,740,000. The first annual payment of $87,000 was made on February 1, 1990. On May 9, 1990 the Lottery awarded a second Lotto*America jackpot prize of $3,000,000. The first annual payment of $150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for $7,360,000. The first annual payment of $368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totaling $46,967,738.57. The first annual payment of $2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totaling $2,000,000. The first annual payment of $100,000 was made on April 27, 1992.

On July 6, 1994 the Montana Lottery awarded its first Tri-West Lotto jackpot prize totaling $700,565. The first annual payment of $35,000 was made on July 26, 1994.

On July 22, 1995 the Montana Lottery awarded its first Powerball jackpot prize totaling $31,401,655.99. The first payment of $1,571,655.99 was made on August 8, 1995. On April 5, 1997 the Lottery awarded a second Powerball jackpot prize totaling $11,000,000. The first annual payment of $550,000 was awarded on April 18, 1997.

On March 27, 1999 the Montana Lottery had a Powerball jackpot winner. The prize was $35.1 million ($19.35 million cash option). The winner chose the cash option and was paid a lump sum in June 1999.

On June 23, 2010 the Montana Lottery awarded its fourth Powerball jackpot prize. The total jackpot was $96,856,406 and was split between another ticket in Ohio. Half of the jackpot, which was again split between two winners in Montana, totaled $48.5 million (25.08 million cash option). The winners chose the cash option and were paid a lump sum in July 2010.

As of September 30, 2013, the combined total of future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds for Powerball and Tri-West Lotto winners was $5,375,000. Total annual payments due as of March 31, 2013 are as follows:

FYE	
2014	550,000
2015	2,120,000
2016	550,000
	$ 3,220,000

10. LEASES/INSTALLMENT PURCHASES PAYABLE

Rent. The Montana Lottery leases its office, administrative and warehouse facilities under a lease agreement that is effective September 2007 through August 2017. The monthly lease payment is $11,775 through August 2013. The base rate will increase 3% annually.

Capital Lease. The Lottery has contracted with its vendor to lease equipment for the remaining life of its contract with them. Obligations under this capital lease/installment purchase at September 30, 2013 are as follows:

FYE	
2014	60,869
2015	77,528
2016	55,423
Total Minimum Payments	193,820
Less: Interest	(13,400)
Present value of Minimum Payments	$ 180,420

11. INVESTMENT RISK DISCLOSURES

Effective June 30, 2005, the State of Montana implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. The Lottery participates in two investment pools: the Multi-State Lottery Association (MUSL) reserve accounts and the State of Montana's Short Term Investment Pool (STIP). There are four types of risk that must be disclosed. These risks are defined below, followed by their applicability to each of the investment pools.

Multi-State Lottery Association The MUSL investment policy for prize reserve and unreserved funds states that permitted investments "include direct obligations of the United States government, perfected repurchase agreements, and obligations issued or guaranteed as to payment of principal and interest by agencies or instrumentalities of the United States government, and mutual funds of approved investments".

Short-term Investment Pool All short-term funds are held in the State's Short Term Investment Pool (STIP) administered by the Board of Investments (BOI). STIP is an external 2a-7 like pool.

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation, i.e., not make timely principal and interest payments. The STIP securities have credit risk as measured by major credit rating services, however, the pool is not rated. The Lottery does not have a policy regarding credit risk

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Per MUSL, the prize reserves held on behalf of the Montana Lottery are invested in the Montana Winners Trust and include 50% in securities held as obligations of the U.S. Government and are not considered to have credit risk. The other 50% of the prize reserves are invested in Federal Agencies and have an AAA credit quality rating. The Lottery does not have any authority or a policy regarding the investment portfolios.

Custodial credit risk is the risk that the Lottery would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party in the event of the failure of that party. Custodial credit risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are held in the Montana Winners Trust using policies set forth by the MUSL board regarding policies for the type of securities, as well as the custody, trading and the use of proceeds of the securities. The Lottery does not have any authority or a policy regarding the investment portfolios.

Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Because STIP is a pooled investment, this risk does not apply. Because the MUSL reserves are also a pooled investment, this risk does not apply to them either.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk does not apply to STIP because it is a 2a-7 like pool.

The MUSL prize reserves are invested through the Montana Winners Trust in the Morgan Stanley Government Portfolio Funds with daily liquidity and therefore have no interest rate risk. The MUSL board's investment policy limits the individual security and the portfolio's maturity. As of June 30, 2013, the duration for the U.S. Government Treasury securities was .90 years.

12. EMPLOYEE RETIREMENT PLAN

All Lottery employees hired are, initially, members of the Public Employees Retirement System – Defined Benefit Retirement Plan (PERS-DBRP). PERS-DBRP is a defined benefit cost sharing, multiple-employer public retirement system established on July 1, 1945 and governed by Title 19, chapters 2 & 3 of the Montana Code Annotated. This plan provides retirement, disability and death benefits to substantially all public employees and their beneficiaries not covered by another public plan.

New hires have a 12 month window during which they may choose to transfer to the Public Employees Retirement System – Defined Contribution Retirement Plan (PERS-DCRP) or remain in the current PERS-DBRP. Members may not be members of both plans. The choice is irrevocable. Members of the DCRP direct their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of their employer's contributions is used to reduce the Plan Choice Rate unfunded actuarial liability, to fund the long-term disability benefits to participants of the DCRP, and to fund an employee education program.

-Alternative accessible formats of this document will be provided upon request.